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Disruptive Adaptation

The New Market for Higher Education

By Jon McGee

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He has worked in the field of higher education research and policy for 23 years, previously in Minnesota's Department of Finance as a budget analyst, where he was responsible for executive branch planning and development of public sector postsecondary operating and capital budgets. He then became vice president for research and policy development at the Minnesota Private College Council, where he was responsible for analysis of state and federal higher education policies, particularly as they related to education finance and student financial aid, as well as collection and analysis of institutional enrollment and financial data.

Much of his work and writing focuses on demographic and economic trends and their impact on higher education and public policy, and he is currently engaged in writing a book about "educationomics." He is a frequently invited speaker nationally on demographic trends, the economics of higher education, and the intersection of mission, market, and institutional values, most recently appearing at the Midwest Regional College Board Forum, the College Board Colloquium, and the Consortium on Financing Higher Education Financial Aid Directors Retreat. He serves on the College Board Midwest Regional Council and as a member of the College Scholarship Service Assembly Council.

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BY JON MCGEE

He is the best who, when making his plans, fears and reflects on everything that can happen to him, but in the moment of action is bold.

— Herodotus, ancient Greek storyteller and historian (5th C. BCE)

Transition points in history often result from the confluence of multiple seemingly unrelated events. And while in retrospect the signals of change and their impact may appear clear, our real-time experience of change often is murkier and less certain. History most often does not come neatly wrapped in a bow. The period of transition from one historic period to the next—a liminal moment—typically is jarring as we become unmoored from the security of current context and practice and move to a future that appears less certain and less secure. Adaptation, innovation, and leadership become premium values during transitional periods.

Disrupted by jarring economic change and long-predicted demographic shifts, higher education today finds itself in its own liminal moment.

The Great Recession of 2008 seamlessly morphed into the Endless Slowdown. At the same time, significant demographic changes in the traditional-age college population have begun to take full effect. Assumptions colleges may have held as truths about their students, their families, and themselves prior to 2008 have been continuously and uncomfortably challenged in the years since then. What we surely hoped or expected to be temporary has instead resulted in something more lasting. It now appears that we are not simply biding our time in a temporary interruption of an historic trajectory. Instead, the economic, demographic, and (likely) cultural and political trajectories have changed. The new pathways have produced a continuing disruption as both families and institutions struggle to adapt to new and changing market conditions.

The disruption challenges assumptions and long-held, often revered, practices and values. The signature characteristic of the new trajectory, for colleges and families alike, is scarcity. The battleground for what is best described as disruptive adaptation will be defined by economic choices. And colleges of all stripes will be challenged in remarkably complex ways to find new approaches to align their mission, market, and management practices and aspirations.

Forces of Disruption

What are the signature issues of the higher education marketplace today? The economy, though better to be sure, has not yet fully recovered and remains fragile. In addition, the forces of demography, long-predicted, also continue to evolve and exert pressure on our enrollment practices and expectations. A review of five key forces of disruption suggests that complex choices will remain the norm for most colleges and families.

1. Demography. The basic force driving enrollment, demographic projections have for years indicated that markets for traditional-age students across the country would change in dramatic ways. The projections have played out. Demographic change has unfolded in three ways, each of which has significant and long-term implications for colleges everywhere:

- After reaching its apex in 2008, the number of high school graduates nationally began a protracted period of slow decline[1]. Though not a particularly steep decline, the change came on the heels of already historically high college participation rates, which suggested, at a minimum, that the higher education marketplace would become more congested and more competitive. And that has played out. Admission yield has become increasingly difficult to predict and manage at colleges and universities across the country.

- More significant for most colleges, demographic change has occurred in different ways in different parts of the country. While the number of high school graduates in the South and the West has remained mostly stable, the Midwest and East each have experienced significant declines. Most students nationally travel less than 100 miles from home to college (and 80% travel less than 500 miles)—meaning that the vast majority of higher education is local or regional. Local demographic change will continue to impact the competitive environment for higher education.

- The U.S. population—particularly the young population—is increasingly racially and ethnically diverse. Between now and 2020, the only growth that will occur in high school graduates nationally and regionally will occur among young people of color. The number of white graduates will fall by 7% between 2012 and 2020, while the number of graduates of color will increase by 19%. It is important to pay attention not just to the big numbers, but also to what is happening among sub-populations. Most notable, the country will continue to experience extraordinary growth in the number of Hispanic high school graduates over the next eight years (expected to rise by a whopping 35%). Hispanic students already make up the largest share of graduates of color—and their plurality will widen to a majority share by 2020 and beyond (46% in 2012 to 52% in 2020).

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Changing demography presents new opportunities but new challenges, as well. New markets are not born overnight. Moreover, selectivity notwithstanding, most colleges in the country do not choose their market. The market chooses (or doesn't choose) them.

2. Unemployment. Persistently high unemployment remains a nagging remnant of the Great Recession. While job numbers have improved recently (unemployment in March 2012 reached its lowest level in three years), hiring remains slow. The number of unemployed, marginally employed, and discouraged workers in the U.S. totals nearly 23 million[2]. More significantly, those defined as long-term unemployed (more than 27 weeks) comprise more than 42% of all unemployed people—more than twice historic averages and suggestive of a long-term structural unemployment problem in America.

Unemployment is a key statistic not just because of the personal devastation it wreaks and the economic drag it creates, but also because the statistic itself drives social and political anxiety. It is as important perceptually as it is in reality. Almost surely an overlooked statistic outside of the financial aid office, colleges need to pay closer attention to the changing employment situation both broadly and among their own students. The employment devastation wrought by the Great Recession touched families of all types and continues to influence economic behavior, including college choice.

3. Family income. In spite of significant economic growth prior to the recession, Census Bureau data indicates that real median income for families with children declined by nearly 11% between 2000 and 2010[3]. Inflation-adjusted median income is now similar to what it was in 1996. Real income has fallen for families of all types—but colleges looking forward need to pay closest attention to families who do not yet have college-age children. Real income for young families (those headed by someone aged 25 to 34) fell by nearly 13% between 2000 and 2010. The picture is not encouraging and suggests that financial aid expenditures will continue their inexorable rise for the foreseeable future—irrespective of changes in tuition price.

The question for most colleges will not be whether they survive, but rather how they will adapt to succeed in a new marketplace.

4. Home values. Homes are most families' largest asset. For generations, it was an unassailable American presumption (though not an empirical truth) that home prices and property values would always increase. Unfortunately, many families learned the hard way that they don't. According to the S&P/Case-Shiller index of home prices[4], prices peaked in April 2006. The housing bubble burst shortly thereafter and, since then, home prices have plummeted by 34%, stabilizing in summer 2009 but ebbing downward again in 2011. Research by the Federal Reserve Board[5] indicated that between 2007 and 2009, the median value of homes owned by couples with children fell by nearly 18%. While other assets like stocks have recovered most of their value over the past several years, homes have not. Falling home prices and home values have put many families at financial risk—many holding mortgages worth far more than the value of their homes. Combined with flat or falling income and high unemployment, a large number of American families are simply poorer than they were five years ago—which has had and will continue to have extraordinary implications for financial aid and college affordability.

5. Family debt and saving. Americans took on extraordinary amounts of debt in the run-up to the Great Recession. However, when faced with the reality of unsustainable debt addiction, they changed their behavior. For reasons both self-directed and externally imposed, families have spent the better part of the last three years reducing their debt obligations (student loans being a notable exception). Financial obligations as a percentage of disposable personal income dropped sharply after the recession began as families bought down or wrote down debt of all kinds. Between the middle of 2007 and the end of 2011, the average financial obligations ratio (which measures the ratio of household debt of all types to disposable personal income) fell by nearly 20% among homeowners[6]. In addition, after reaching dismal lows by 2005, personal saving rose sharply in the immediate aftermath of the recession, reversing a long-term trend of progressively lower savings rates[7]. Though savings rates have declined since 2010, they remain higher than the average for the five years prior to the Great Recession. That's good news from an overall financial health standpoint. What remains to be seen is how families will re-rank their spending priorities and whether they will return to old habits if and when the opportunity presents itself.

Each of these indicators matters because they individually and collectively shape college opportunity from the vantage point of both families and institutions. Each represents a long-term issue not easily subject to short-term change. In a brute force way, the indicators direct colleges to think long term and to better understand their markets.

Disruptive Adaptation: Making Choices in a New Marketplace

The forces of disruption are everybody's story and nobody's story. On the one hand, the challenges they present will continue to influence and re-shape the broad market for higher education. On the other hand, they impact different institutions in vastly different ways. Which is why in spite of the swirl of uncertainty around us, two things are absolutely clear:

- Colleges and universities everywhere must have a deep and clear-eyed understanding of their own markets, their own opportunities, and their own constraints.
- Solutions that suggest one-size-will-fit-all will not work. All solutions or responses must be contextual.

> Due to the pressures of the marketplace, disruptive adaptation will play a very large role in the future planning and success of colleges.

This is not a time for dreamy future-gazing or stubborn commitment to past practice. Nor is it a time to wallow in a sea of gloomy news. Rather, the imperative is to address the realities of our environment in a forward thinking, grounded, and assertive way. In the end, our aspirational ambitions must align with our operational realties. Models projecting ruin come to fruition only if behavior does not change. The question for most colleges will not be whether they survive, but rather how they will adapt to succeed in a new marketplace.

Most colleges will spend the better part of the next decade (not just the next year) continuously working to align their aspirations with their operations. They will do so in an environment of increasingly scarce resources, intense demand, and rising expectations for performance and management. Innovation surely will play a significant role in future planning and success. But I believe adaptation will play an even larger role.

The crosscutting pressures of the marketplace mean that some amount of adaptation to the disruptive forces of the marketplace is required across the spectrum of college operations. Adaptation will occur along three basic lines:

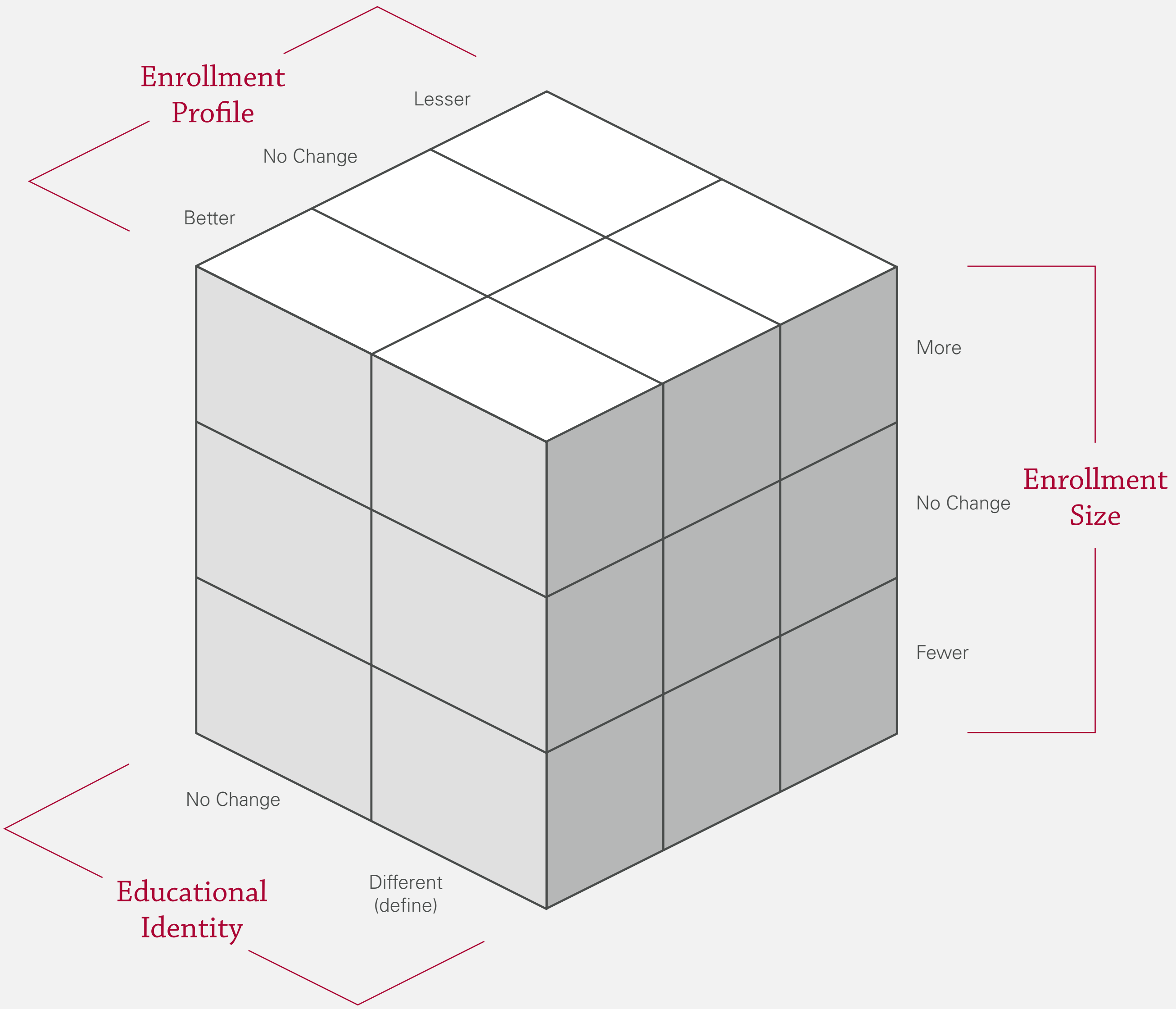
1. Market adaptation identifying new markets, new ways to succeed in current markets, and new pricing practices. Each of these options presents complex choices: new markets typically take years to develop, new ways to succeed in current markets requires a competitive leap forward, and new pricing practices require a sophisticated financial calculus.

2. Management adaptation involving a combination of new pathways to efficiency and new ways of delivering and supporting the infrastructure of higher education. The subject of dozens of management practice texts, management adaptation will require a careful assessment of productivity.

3. Learning adaptation exploring new ways of imagining and delivering the learning experience. This likely is the most fertile ground for change. However, it also presents the set of choices most burdened with the weight and trajectory of institutional history and values.

None of these vectors of adaptation is independent; choices in one influence choices in the others. Whether generated internally or imposed externally, some amount of change along all three lines is likely for the vast majority of higher education. Institutional conditions will (and should) determine the particular type and degree of change required at any given college or university. The question, then, is the framework by which we can evaluate these independent issues.

THE DECISION CUBE



A Contextual Tool for Addressing Disruptive Adaptation: The Decision Cube

In the face of continuing disruption, it is more important than ever for colleges to define their markets. Two questions are paramount:

1. Should we make changes to accommodate our current markets, adapting to the ways those markets have changed?

2. Should we seek new markets in new ways in new places?

Unfortunately, while each question likely yields an interesting discussion, neither lends itself to an actionable conclusion. Part of the problem rests with the term "market." It encompasses many variables, both dependent and independent, inclusive of enrollment and learning profile. The challenge is to dimensionalize those variables in a way that makes their points of intersection—and therefore the points of trade-off—clear.

The universe of market-related choices is encompassed along three distinct but related dimensions: enrollment size, enrollment profile, and educational profile or identity. Choices along any one dimension influence choices in the other two—collectively forming a kind of strategic decision cube (like a Rubik's Cube, only not equal sided). The decision cube provides a framework for addressing disruptive adaptation and making choices in turbulent times.

The three dimensions of the cube present the following choice field:

- **Enrollment Size.** All institutions have three basic enrollment choices—enroll more students, fewer students, or the same number of students. An enrollment target is a singularly consequential choice for most colleges, particularly those that are tuition dependent. It involves consideration of both new and returning students. Retention strategy must be a key component of enrollment decision-making.

- **Enrollment Profile.** Similar to the size question, all institutions also have three choices related to their student profile—improve the profile (this can be specified in any number of terms), lessen the profile (typically, though not exclusively, expressed in terms of academic characteristics), or maintain the current profile. A decision to change the enrollment profile is complex because few colleges actually own their profile market—and in many cases, their profile market owns them.

- **Educational Identity.** Only two choices here—maintain your current educational identity (e.g. residential, full-time, undergraduate, traditional-age, liberal arts, particular program mix, etc.) or change it to something different (which must be defined). Changing educational identity is even more complex than changing the enrollment profile because it often is deeply rooted in history and sense of self, and contextualized by any number of taxonomies and peer and aspirant groupings. Nonetheless, it represents a real choice, particularly during disruptive or transitional periods.

The decision cube demands simultaneous consideration along all three dimensions for any discrete choice along one dimension. For example, a decision to increase enrollment also requires reflection on enrollment profile and educational identity (e.g., What happens to our profile when we increase enrollment? Is our current educational identity sufficient to attract the additional students we seek to enroll?). In other words, all market choices related to size, profile, and identity are integrated. Each choice along any one of the three dimensions requires choices along the other two dimensions. Each collection of choices lands an institution in one part of the cube or another.

> Each choice along any one of the three dimensions requires choices along the other two dimensions.

The size, profile, and identity dimensions of the decision cube define market and mission choices. Those choice combinations clearly have significant management or operational implications. Consequently, in addition to making basic choices about size, profile, and identity, each box in the cube—irrespective of the degree of change in any of its particular components—carries with it four management imperatives that bring the market and mission dimensions together.

1. Financial requirements.
How do we create and allocate resources to ensure the success of a particular choice? The consideration must include a review of net tuition requirements, fundraising requirements, and expense requirements. The net revenue opportunities associated with any set of choices must at least match its expense requirements—meaning any choice must either yield revenue in excess of expenses or be financed by a set of trade-offs that bring the revenue and expense equation into balance.

2. Program requirements. What program strategies are required for success in either new or existing markets? Program requirements include consideration of both curricular and co-curricular programs and activities. In the end, programs and activities provided by an institution cannot be constructed independent of the needs, interests, and demands of the institution's market.

3. Recruitment requirements. How will we go to market to ensure our success? Recruitment strategy must include an assessment of current markets, capacity for market development, and recruitment support. Well understood in admissions offices everywhere, all enrollment goals require the formulation and execution of clear tactical strategies. Enrollment success rarely results from hopes and wishes.

4. Brand communication requirements. How must we position the institution in the marketplace to ensure success? Does that require changing the way the college currently is understood? The more significant the change along any of the three dimensions of the decision-making framework, the more important brand communication becomes.

Every institution begins the cube exercise in the same place: a current level of enrollment, a current enrollment profile, and a current educational identity. That place reflects a college's summative marketplace identity. During disruptive times, the challenge for institutions is to address the four management imperatives to determine whether their current market position is sustainable (or if they are willing to make the trade-offs necessary to make it sustainable). If not, the decision cube model provides a tool for consideration of adaptive (or innovative) change.

> The challenge for institutions is to determine whether their current market position is sustainable.

The objective in the end is to reach a kind of two-way equilibrium. Colleges need to find a point of sustainable economic equilibrium, a point at which revenues and expenditures each are secure enough to create long-term prospects for success and excellence. Put in the form of a question, what decisions must we make to create sustainable conditions for excellence in the context of a shifting marketplace that requires continuous adaptation? Students and families seek a similar point of equilibrium—a point of balance between what they are able to pay (an economic question) and what they are willing to pay (a value question). Put in the language of economics, for families, the marginal value (or utility) of attending a particular college must equal the marginal financial effort required of the family. Each point of equilibrium is the product of a complex set of decisions wholly owned by neither institutions nor families. Colleges address market issues from their own vantage point. However, the cube framework provides an opportunity for institutions to simultaneously consider mission, market, and management issues as they make decisions.

And in the End

Mission, market, and management choices ought not be the product of benign neglect or drift. Few colleges today can afford the cost and consequences of drift or neglect. The challenge is to marry the three dimensions in a way that is considered and capable of yielding a sustainable and successful future. ■

It is not the strongest of the species that survives, nor the most intelligent.
It is the one that is the most adaptable to change.

— Charles Darwin

ENDNOTES

[1] See *Knocking at the College Door*, Western Interstate Commission for Higher Education, March 2008, www.wiche.edu/pub/11556, for detailed data on projections of high school graduates.

[2] See *The Employment Situation – March 2012*, Bureau of Labor Statistics, U.S. Department of Labor, April 6, 2012, http://www.bls.gov/news.release/empsit.toc.htm.

[3] See *Income, Poverty, and Health Insurance in the United States: 2010*, Current Population Survey, U.S. Census Bureau, Tables F-9 and F-11, http://www.census.gov/hhes/www/income/data/historical/families/.

[4] See http://www.standardandpoors.com/indices/sp-case-shiller-home-price-indices/en/us/?indexId=spusa-cashpidff--p-us----.

[5] See *Surveying the Aftermath of the Storm: Changes in Family Finances from 2007 to 2009*, Finance and Economics Discussion Series, Divisions of Research and Statistics and Monetary Affairs, Federal Reserve Board, March 2011, www.federalreserve.gov/pubs/feds/2011/201117/201117pap.pdf.

[6] See *Household Debt and Financial Obligations Ratios*, Federal Reserve Board, March 2012, http://www.federalreserve.gov/releases/housedebt/.

[7] See *Personal Savings Rate*, Bureau of Economic Analysis, U.S. Department of Commerce, April 2012, http://research.stlouisfed.org/fred2/data/PSAVERT.txt.

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The Lawlor Group is one of the nation's preeminent higher education marketing firms. We are totally committed to enhancing an organization's value proposition and creating organizational distinction through the art *and* science of marketing. The focus of our work is on four core areas of expertise—market research, brand management, institutional marketing, and enrollment management. Our market domain is private colleges and universities, and our services fall in three categories—research, consulting, and communications.

The Lawlor Group has provided research, strategic counsel, and integrated marketing communications assistance to more than 200 education clients since our founding in 1987. The firm also publishes *The Lawlor Review*, a critically acclaimed education marketing journal; *Lawlor Perspective*, a series of white papers for senior management and trustees; and *Lawlor Focus*, a monthly e-newsletter that explores topics relevant to marketing and communications professionals in higher education. In addition, we sponsor a series of professional development seminars and symposiums for education marketers through events such as Lunch with Lawlor and Lawlor Forum, in addition to our co-sponsorship of the annual Summer Seminar. If you would like to learn more about The Lawlor Group, please check out our website at **www.thelawlorgroup.com**, email us at **tlg@thelawlorgroup.com**, or call us at **1.800.972.4345**.

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